
The Big Rotation?

Summary:

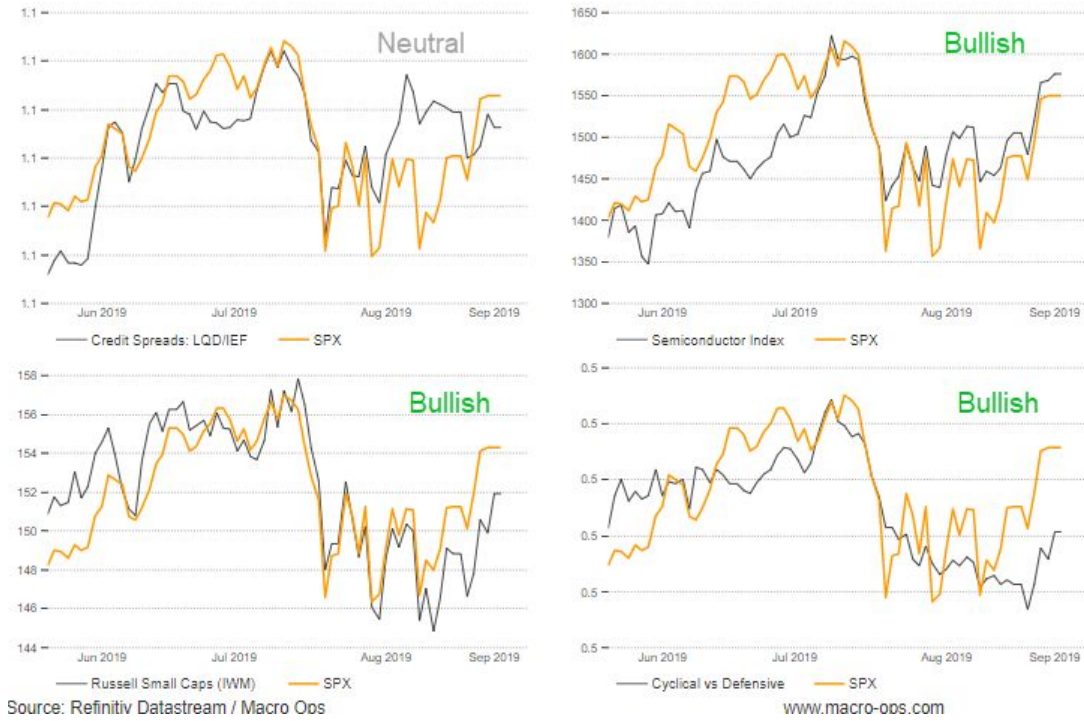
- Bullish Trend Confirmation
 - Very strong breadth
 - Participation of small-caps and cyclicals
 - NASI Buy signal
- Big Rotation? Value and cyclicals outperforming
 - Financials and energy setting up
 - Crowded growth and momentum names getting crushed
- This could spell trouble for bond bulls and subsequently, our long precious metal trades
 - Watch Cyclical vs. Defensive and Copper vs. Gold
 - CAD may be signaling a breakout in oil which is bad for bonds
 - All eyes on Fed next week (will the Fed cut 50bps?)
- Trades and Portfolio:
 - Scorpio Tankers (STNG) making new 52-week highs
 - Graftech (EAF) breaking out
 - Energy names running (WTI, EC, SD)
 - Carbo Ceramics (CRR)
 - Starter position in GAIA

The bullish confirmation signals that I said we were waiting for last week have all been hit. The path of least resistance for US stocks is now higher, though there's significant headline risk with the FOMC next week.

Let me walk you through what I'm looking at.

Market Internals have improved dramatically since last week with small-caps and cyclicals confirming the trend higher.

Market Internals



The trend in cyclical vs. defensives is especially important to keep an eye on in the coming weeks as it may be signaling the start of a big sector rotational shift which would bode well for the broader bullish market trend.

Cyclical vs. Defensive



Market breadth and participation is strong. The NYSE AD Line hit a new high. More stocks are trading above their 50dma and their VWAP. And a Zweig Breadth Thrust Buy Signal has just officially triggered.



We're also seeing a strong NASI buy signal.



And NYMO is surging higher showing there's underlying strength in this move.

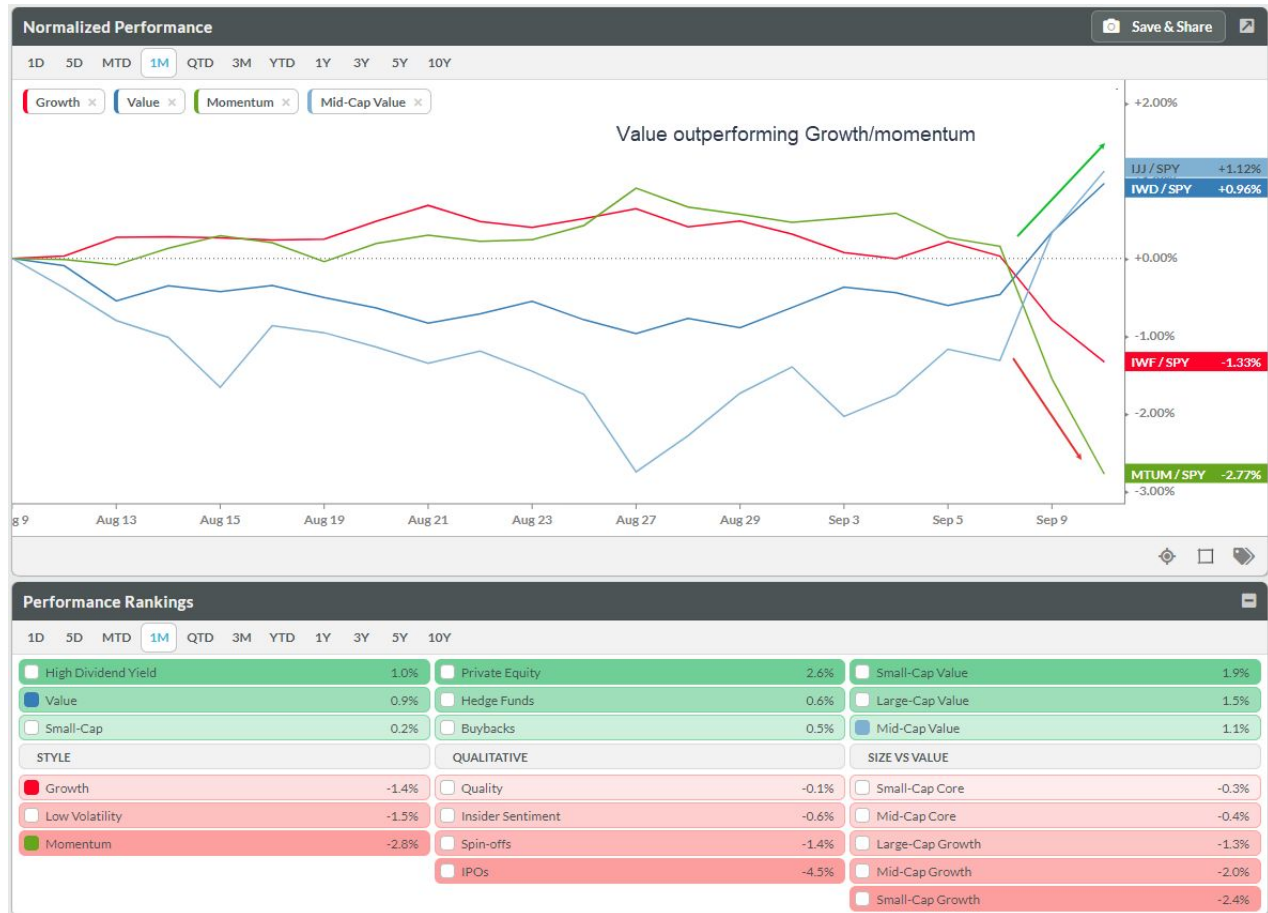


Small-caps (IWM) have bounced off their lower channel. We eventually need to see the Russell break out of this range to fully confirm a sustainable bull move higher in the broader market.



A Big Rotation may be in the works

This graph from [Koyfin](#) shows that we may be seeing a turn in Values performance relative to Growth and Momentum.



Two weeks hardly makes for a trend and this wouldn't be the first time we saw value perk up and growth/momentum struggle before quickly reverting back to this cycle's long trend of hammering down anything that trades for a low price to FCF multiple.

But... I think there's a decent chance value's outperformance sticks this time around.

One reason is that if you've been paying attention to the news and narrative cycle lately then you'll have noticed that there's a clear sentiment shift occurring in regards to the big tech "unicorns" that are trying to or have recently IPO'd.

The poster child of this narrative sea change is WeWork who looks like they might have to shelve their IPO because the market is calling bollocks on its proposed valuation of \$20B which is less than half the private \$47B valuation assigned to it in January.

Investors, even those who've been some of the biggest cheerleaders (read: Koolaid drinkers) of cash burning tech companies this cycle, are turning on the "community-adjusted EBITDA" company and especially it's 'charismatic' CEO Adam Neumann, who said this bit of visionary vomit back in 2017:

"No one is investing in a co-working company worth \$20 billion. That doesn't exist. Our valuation and size today are much more based on our energy and spirituality than it is on a multiple of revenue."

This is the same guy who used his family office to trademark the rights to "We" and sell it to his company for a cool \$6.9M. Oh, and it's also the guy who personally owns a number of commercial buildings in a holding company which he then leases back to WeWork and charges a hefty management/lease fee for. There's also the expensive Jet plane the company purchased for the CEO, the byzantine corporate structure and on and on, but I digress...

The point is, WeWork was valued by the private markets 8 months ago at \$47B. Which is quite a valuation for a company that did \$1.82B revenues last year which it managed to lose \$1.61B on.

Cutting that valuation in more than half to \$20bn would still give the company a price-to-sales multiple of more than 10x. That is still insane. It's insane because Wework is just a dressed up real estate company with a leeching CEO and a flaccid board. The company has nearly \$50B in obligations with only \$4B in committed leases from short-term tenants. That's a Grand Canyon-sized duration mismatch. The company can't variabilize its cost — because, again, it's just a real estate company — which makes it incredibly vulnerable to the next cyclical downturn.

Rant over. The main point is that I get the sense that collectively we're beginning to publically acknowledge that the Emperor is naked, that there's a bubble in private markets.

This is incredibly important because the pumped-up valuations for the majority of these unicorns are entirely reliant on the perpetuation of the Game of Greater Fools. And just in case you're not familiar with GFT, here's an explainer from [a piece](#) I wrote back in 16':

At Macro Ops, we define GTF as "insanely stupid and endlessly repeated moments in market history when a bunch of idiots start setting their cash on fire because they see other people doing it."

Or there's how 19th-century editor of *The Economist*, Walter Bagehot, described it when writing about the 18th century South Sea Bubble. GFT is when “a great deal of stupid people have a great deal of stupid money... At intervals, the money of these people — the blind capital, as we call it, of a country, is particularly large and craving; it seeks for someone to devour it, and there is a ‘plethora’; it finds someone, and there is speculation; it is devoured, and there is ‘panic’.”

These tech valuations are a total confidence game. The Achilles heel of confidence games is the threat that a critical mass of participants will point out the obvious lie in which the narrative — or valuation — is built.

In this sense, the recent blunders of WeWork and the poor showings of Uber and Lyft post-IPO, are bringing the foundational lie in which this tech valuation game rests, to light. And the greater danger here is that this creates negative systemic effects in that the turning of this narrative goes on to affect closely related nodes, like those of the more established FAANG stocks.

If that ends up being the case, the trade will be to short crowded overvalued tech and go long hated and shunned value.

CAD, Oil, and Bonds

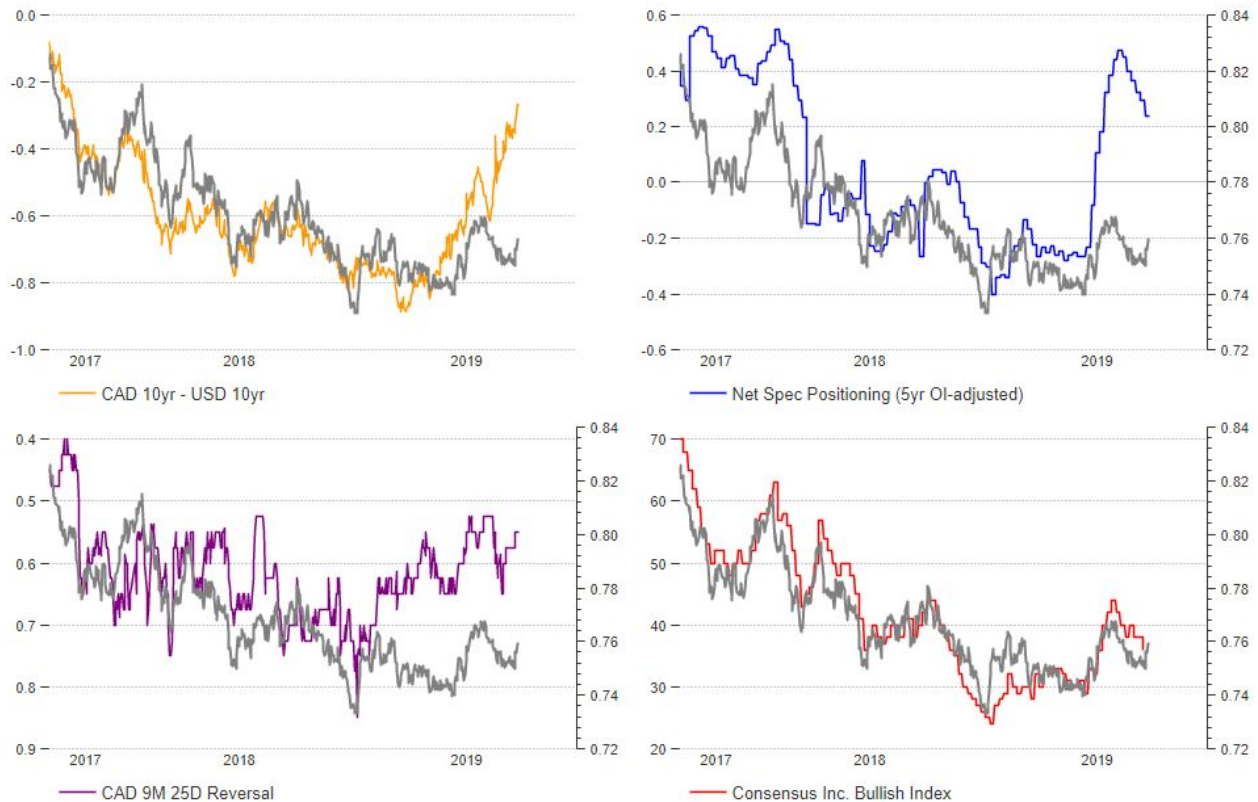
The chart on our long Canadian dollar trade continues to look good.



The majority of drivers favor a trend higher in CADUSD. The one short-term bearish element is positioning which has become somewhat stretched (top-right chart). I'd like to see it continue to come down before we add more to the position.

Canadian Dollar (CAD) Drivers

Rate Differentials, Positioning, Risk Reversal, Sentiment



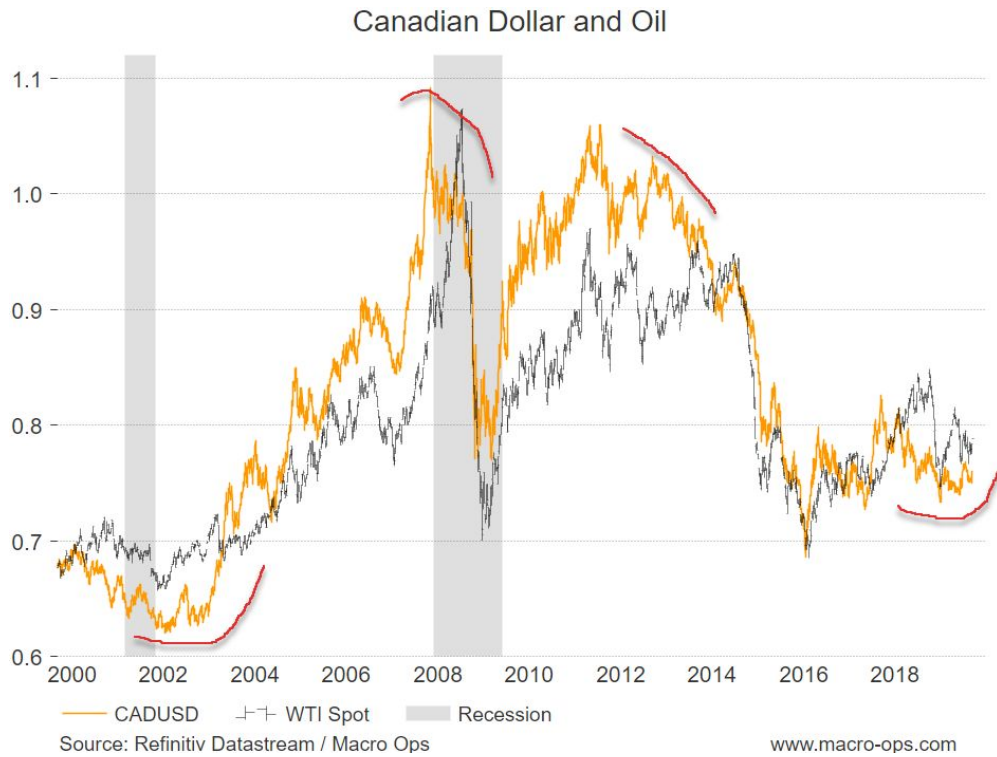
Source: Refinitiv Datastream / Macro Ops

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The FOMC next week could make or break this trade. As of right now, the Fed is expected to cut 25bps. I think there's a good case to be made for them cutting 50bps and trying to positively surprise the market. If they want some bang for their buck and to *actually* get something out of these rate cuts, then that's what they should do. Ultimately, we can't know what Powell's thinking so we'll have to cross that bridge when it comes.

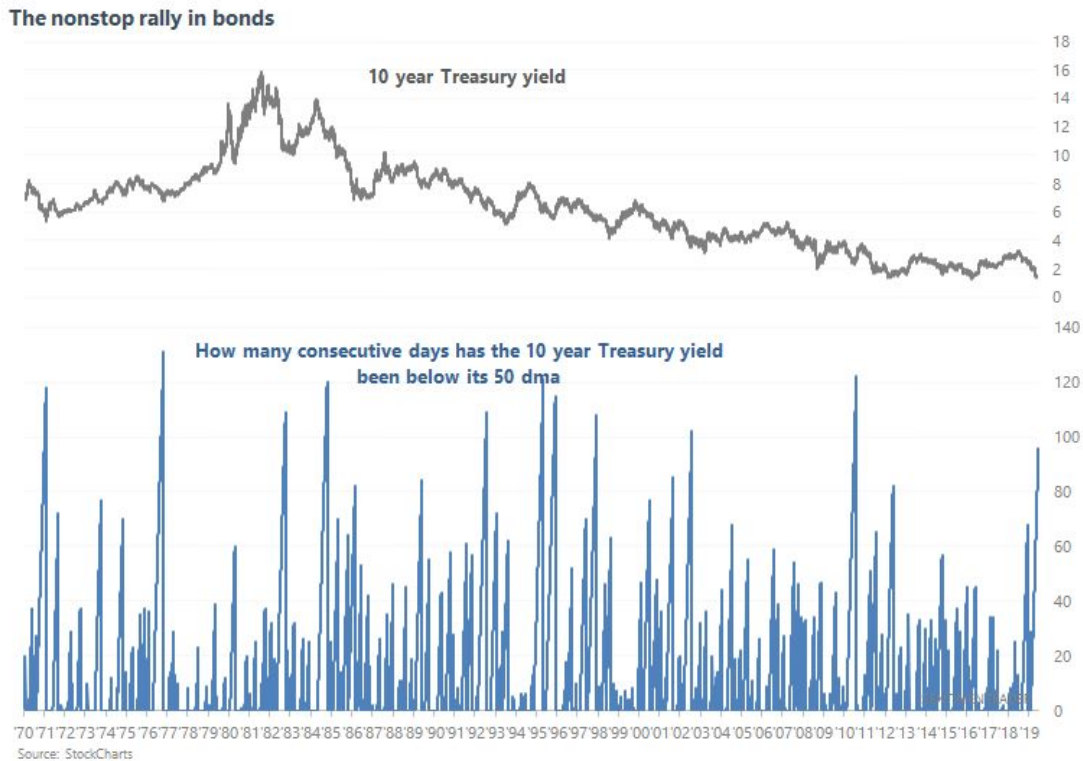
If the Fed does surprise dovish then we could see the dollar drop and CAD run. A higher CAD typically means higher oil, if you remember our discussion on the [hierarchy of traders](#), oil traders typically sit above FX traders. But this relationship actually flips between CAD and oil, and when you're assessing the oil market you want to always look to see where CAD is trending.

You can see on the chart below how CAD has often led oil at major shifts in trend.



If we get a rally in stocks, that's led by cyclicals over defensives, plus a lower dollar and higher oil, then there's the potential we see a sizable selloff in bonds (rise in yields) which are coming off of very technically stretched levels (chart below is a weekly).





I'm not looking to play bonds to the short-side here because barring any major stimulus out of China soon, the macro pull for lower US yields is just too strong over the long-term and I don't wish to fight that trend.

But, a short-term spike in yields is likely to do some major damage to our long precious metals trades (AU and AG) where positioning and sentiment have become incredibly crowded. Like bonds, I remain a bull on gold and silver over the long term but we need a washout in sentiment and it could be a painful one.

We're going to sit on our AG Jan 20' DOTM calls but take 80% profits on our long Anglogold position (AU) today.

Scorpio Tankers (STNG)

STNG looks to be off to the races. The stock made new 52-week highs this week and looks like it's going to complete a 2-year inverted H&S bottom this week (chart below is a weekly).

MacroOps published on TradingView.com, September 10, 2019 15:43:54 EDT
 BATS:STNG, 1W 30.60 ▼ -0.23 (-0.75%) O:29.51 H:30.97 L:29.51 C:30.60



At 16% of portfolio's NAV, STNG is already our biggest holding. I'd like to increase this to around 25%. I'll be looking to add to the position on pullbacks to near the midline of the Bollinger band (the dotted grey crosses).

MacroOps published on TradingView.com, September 10, 2019 15:46:01 EDT
 BATS:STNG, 1D 30.58 ▼ -0.25 (-0.81%) O:30.97 H:30.97 L:29.98 C:30.58



Our second-largest equity position, Graftech (EAF), is also breaking out. We're also going to look to add to his position on pullbacks.



Our energy names (WTI, EC, SD) are setting up nicely. I particularly like the technicals of W&T Offshore (WTI). Chart below is a weekly. If oil can hold its recent breakout, then I'll look to add to these names on pullbacks.



We'll be putting on a starter position in Carbo Ceramics (CRR) on a pullback (the stock is currently bumping up against its daily and weekly top BB).

Mr. Bean covered the value that's on offer in CRR in his latest *Value Ventures* ([link here](#)).

CRR is a company I've followed for a long time. They have one of the best management teams in a tough industry. When the Wilks brothers recently came in and upped their exposure to the company, and in the process provided some much-needed liquidity, I began paying a little more attention. I don't know if now will be the bottom in the oil and gas space, for what it's worth I think we're getting close, but some of these names just offer too good of a risk/reward setup to not take a swing at 'em.



Finally, we're taking another swing at Gaia (GAIA) and will be putting on a starter position tomorrow morning.

GAIA just broke out of its year-long bear trend.

MacroOps published on TradingView.com, September 10, 2019 16:18:20 EDT
 BATS:GAIA, 1D 7.69 ▲ +0.70 (+10.01%) O:7.18 H:7.72 L:7.03 C:7.69



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I won't rehash the whole bull case for GAIA again since I've written on it a number of times over the last year. The entire thesis comes down to GAIA's ability to lower churn and boost LTV. As yoga subs roll off and become a smaller part of its business and stickier "Seeking Truth" subs grow, along with a growing offering of premium subscriptions and events (read: higher margin), I think Jirka and team are able to get to FCF positive before they burn through their cash. If I'm right, then GAIA should trade at 3-5x what it's trading now, which is why I'm willing to take another swing at it. Also, insiders seem to have confidence they can pull it off as Jirka, the CFO, and board members have been loading up on the stock.

Insider Trading	Relationship	Date	Transaction	Cost	#Shares	Value (\$)	#Shares Total	SEC Form 4
Sutherland Paul Howard	Director	Aug 22	Buy	7.48	2,500	18,700	91,557	Aug 22 12:45 PM
Hellenkamp Dae	Director	Aug 16	Buy	7.25	5,000	36,248	5,000	Aug 19 11:24 AM
RYSAVY JIRKA	Chairman	Aug 09	Buy	7.12	73,000	519,760	5,872,561	Aug 12 09:20 AM
RYSAVY JIRKA	Chairman	Aug 08	Buy	7.18	32,879	235,907	5,799,561	Aug 12 09:20 AM
Sutherland Paul Howard	Director	Aug 07	Buy	6.28	15,000	94,256	89,057	Aug 07 02:00 PM
Sutherland Paul Howard	Director	Apr 04	Buy	9.04	1,000	9,043	43,440	Apr 04 05:39 PM
Sutherland Paul Howard	Director	Apr 03	Buy	9.02	2,500	22,561	43,440	Apr 04 05:39 PM
Sutherland Paul Howard	Director	Mar 18	Buy	9.43	1,500	14,150	39,940	Mar 19 10:47 AM
Sutherland Paul Howard	Director	Mar 12	Buy	9.70	2,000	19,395	38,440	Mar 13 03:35 PM
Sutherland Paul Howard	Director	Mar 08	Buy	8.97	2,600	23,322	36,440	Mar 11 06:38 PM
Tarell Paul C. Jr.	CHIEF FINANCIAL OFFICER	Mar 07	Buy	8.70	2,000	17,400	27,890	Mar 07 10:49 AM
Tarell Paul C. Jr.	CHIEF FINANCIAL OFFICER	Dec 21	Buy	9.90	1,250	12,375	27,140	Dec 21 06:33 PM
Tarell Paul C. Jr.	CHIEF FINANCIAL OFFICER	Dec 07	Buy	11.64	750	8,730	25,890	Dec 10 12:41 PM
Mubadala Investment Co PJSC	Former 10% holder	Dec 04	Buy	12.74	15,250	194,285	1,266,461	May 14 02:24 PM
Tarell Paul C. Jr.	CHIEF FINANCIAL OFFICER	Nov 13	Buy	11.72	3,500	41,020	25,140	Nov 13 08:31 PM

Plus, Katy Perry loves the product ([link here](#)).

Symbol: Long Gaia Inc (GAIA)

Size: 150bps

Entry: \$7.69

Risk Point: \$6.25

Target: \$18

That's all I've got for now. If you've got any questions for us in the meantime, let us know in the Comm Center. Have a great week!

Your Macro Operator,

Alex

Macro Ops Portfolio		YTD						
		11.55%						
Big Bet Macro								
Asset Class	Position	Position Size	Cost Basis	Notional %	Risk Point	Target	Last Price	P&L
Equity	Construction Partners (ROAD)	4,338	\$12.25	6.14%	\$10.80	\$17.00	\$15.80	28.98%
Equity	Disney DIS	709	\$102.34	8.63%	\$108.50	\$150.00	\$135.79	32.69%
Equity	Graftech (EAF)	9,855	\$12.24	11.94%	\$10.30	\$25.00	\$13.52	10.46%
Equity	Frontdoor (FTDR)	1,240	\$34.10	5.41%	\$28.00	\$55.00	\$48.65	42.67%
Equity	Anglogold (AU)	4,478	\$11.02	7.93%	\$14.00	\$40.00	\$19.75	79.22%
Equity	W&T Offshore (WTI)	4,710	\$4.81	2.14%	\$3.60	\$8.00	\$5.07	5.41%
Equity	Ecopetrol (EC)	1,686	\$18.78	2.60%	\$15.40	\$25.00	\$17.17	-8.57%
Equity	Sandridge Energy (SD)	4,911	\$6.41	2.60%	\$5.80	\$12.00	\$5.90	-7.96%
Equity	BlueLinx (BXC)	725	\$23.75	1.97%	\$19.50	\$35.00	\$30.33	27.71%
Equity	Scorpio Tankers (STNG)	5,765	\$25.75	15.79%	\$21.00	\$40.00	\$30.55	18.64%
Equity	TSLA Sep '19 175 Put	11	\$13.81	0.01%	\$0.00	\$85.00	\$0.13	-99.06%
Equity	TSLA Jun '20 100 Put	14	\$10.70	0.63%	\$0.00	\$85.00	\$5.00	-53.27%
Equity	TSLA Jan '20 150 Put	5	\$15.01	0.20%	\$0.00	\$60.00	\$4.55	-69.69%
Equity	DIS Jan '20 165 Call	68	\$1.11	0.49%	\$0.00	\$10.50	\$0.80	-27.93%
Equity	AG Jan'20 15 Call	387	\$0.35	1.21%	\$0.00	\$3.50	\$0.35	0.00%
FX	Sep CAD Futures	5	\$0.7587	34.03%	\$0.7467	\$0.8096	\$0.7592	0.07%
FX	Sep CHF Futures	7	\$1.0301	79.08%	\$1.0067	\$1.0887	\$1.0081	-2.14%

**Updated 9/9